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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 003626

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SUBJECT: BILLETS, BULLETS AND BENZENE: THE BLACK MARKET IN
MUTHANNA

REF: BASRA 0063

Classified By: Acting Muthanna Provincial Reconstruction Team Leader Kevin Crisp for Reasons 1.4 (b) and (d).

1. (U) This is a PRT Muthanna Reporting Cable.

2. (C) SUMMARY: Corruption has flourished in Muthanna since 1990, leading to bustling black markets in billets with the security services, guns and ammunition pilfered from official sources, and fuel. The Commission on Public Integrity (CPI) has proven ineffective in stifling the symbiotic network of government officials, smugglers and black market entrepreneurs in Muthanna. END SUMMARY.

Middle Class Falls, Corruption and Black Market Rise

3. (C) Since 1990 corruption has worsened in Muthanna, leading to endemic black markets for government positions in the security services, guns, ammunition, fuel, and drugs. Prior to that time citizens paid small bribes to "tea guys," rather menial gatekeepers who scheduled meetings for senior officials. Generally the leaders themselves were not perceived as corrupt. Since then it has been customary in Muthanna to pay a bribe for any major government action or inaction. The reasons for the change are threefold: 1) Salaries decreased in real terms due to the regime's weak finances, 2) When some began to steal openly and were not punished, it encouraged others, and 3) Since 2003, Internal Affairs for the Police, and CPI oversight more generally among the departments, has been ineffectual and politicized. The reporting for this cable is based on local staff accounts, Australian assessments and observations of PRT officers.

4. (C) The cultural shift has proven difficult to reverse. Under the former regime judges, teachers, and other civil servants had their salaries eroded to the point where they could not support their families, yet they were prohibited from resigning. As a result, most began moonlighting or sought illicit opportunities to augment their income. This corrupted the civil service, which despite vastly increased salaries since 2003 has not recovered a reputation for probity. Among Muthanna's citizens the expectation is that every government official will use his office for private gain. Anyone with connections or savvy easily escapes the CPI's grasp.

Bad Boys: Muthanna's Finest Serve, For A Price

5. (C) As in Basra (reftel) officers are not chosen for Muthanna's police based on merit; instead they are nominated by politically influential benefactors. Political parties or tribes often fulfill this role of power broker. In one notable example, a man named Falih, the current commander of

the Provincial Joint Coordination Center, was promoted from Lieutenant to Lieutenant Colonel between 2002 and 2006. His was not the most egregious case as he had at least attended military college; other officers appointed by political parties have little to no formal qualifications. Many senior officers wear rank that they have not earned. The going rate to secure a junior police billet is between \$1100 and \$1500, a substantial increase over last year's price of \$600. But since officers earn between \$600 and \$800 a month, and because Muthanna suffers from a paucity of employment opportunities, paying the bribe remains a rational decision. Former moneymaking schemes at checkpoints involved the threat of jail time for any citizen unable to furnish his Jinsiyah identity card--which usually resulted in a hefty bribe. Yet the Jinsiyah requirement is no longer enforced, so corrupt officers have directed their entrepreneurial spirit to other profitable ventures.

¶6. (C) An example of such corruption is reflected in the market price of guns. A Glock pistol, like the type provided to the MOI by the Coalition, retails for \$1400-\$1600 on the black market, with bullets averaging an additional dollar each. By comparison, the retail price of the same weapon in the U.S. is approximately \$600. The best AK-47s are about \$250, with bullets an additional 500-750 Iraqi Dinars (ID) each. Neither weapon is difficult to locate. During the spasms of violence that seem to beset Muthanna quarterly, the prices of guns rise up to 20%. Conversely, when the Coalition or MOI donates weapons to Muthanna's finest, the black market price tends to fall by a similar percentage. Because no one collects records on shooting engagements, police pad the number of rounds expended, secure in their ability to convert excess ammunition to currency. Similarly,

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Department vehicles are often used for personal errands, so the ministry assumes the cost of fuel. These corrupt systems began under the former regime but were held in check by its willingness to execute the most egregious offenders. The CPI instills no such fear, so corruption has metastasized in Muthanna since ¶2003. The Muthanna PRT continues to seek additional information about the CPI's activities, but has not had much success.

"Official" Fuel Prices and Other Theoretical Concepts

¶7. (C) The "official" fuel price is 450 ID per liter. While reasonably inexpensive, it remains, alas, a theoretical concept. Even when government stations are stocked with "official" fuel, a tip to the attendant--who is a government employee--for a standard 20 liter fill-up must be 5,000ID, a considerable tax on the 9,000ID list price. One can also pay to skip the long lines for only 2,000ID. Attendants often intentionally dally or temporarily disable their pumps, because if the system were to function without delay there would not be an opportunity to extract a bribe. They also tinker with the meters so a citizen filling a standard 20 liter jerry can be charged for as many as 32 liters. Citizens cannot complain, as the alternative is the more expensive black market. One gas attendant in Rumaytha earned enough in only three months of work to purchase a new home.

¶8. (C) Managing a gas station is even more lucrative than pumping the fuel. One Rumaytha station receives 36,000 liters of benzene (gasoline) per day as well as two full trucks of diesel. By keeping two sets of books and allowing some of the petroleum to disappear from his storage tanks, the manager pockets 500,000-900,000ID per day for his complicity with the oil mafia. Such work is not without its hazards: Australian reporting indicates the Albu Jayash tribe attacked a Rumaytha station on 29 May when rumors spread of gas being diverted to Qadasiyah province. Pilfering government resources for the black market, it seems, is fine

so long as it's kept within the province. As a rule of thumb, the spread between the black market price and the official price of gasoline increases the farther one moves from Basra. Additionally, delays in finding fuel also mount the further one travels from Basra. For example, Khidr in eastern Muthanna has more reliable gasoline supplies than Samawah in western Muthanna, and Diwaniyah is worse still. In Najaf the price can reach 2500ID/ liter, especially during pilgrimages, a whopping 500% price premium over the "official" price.

New Rulers, Same Black Market Oil Cartel

¶9. (C) Under the former regime, Hamid Madlul and the Hajjari family had a stranglehold on fuel deliveries in Muthanna. Little has changed. The apparatus for smuggling that thrived during the 1990s persists, albeit with a symbiotic relationship with political parties rather than with one man. The Hajjari family pays a fee or tax to Da'wa, Fadila, and even ISCI and the Sadrists to keep the oil flowing. The family also deals in spare parts, construction and laundering money. Madlul is the oil baron of Rumaytha, and with the help of Hajjari trucks and connections, the black market for fuel thrives.

Uppers and Downers: Drugs of Choice for Muthanna's Idle Youth

¶10. (C) Alcohol is unpopular in Muthanna. But pills, like a sedative called Arteen and an amphetamine called Abu Hajb are trendy among a small number of youth. Heroin and cocaine are unknown, but there is an ongoing hashish trade from Iran to Saudi Arabia, via Muthanna. Compared with the illicit trade in fuel, jobs, guns and ammunition, the drug trade in Muthanna is unsophisticated and affects relatively few people. Nevertheless, if the plan to pave a road through the desert to the Saudi border ever comes to fruition, the trade could flourish.

¶11. (C) COMMENT: Post 1990, the former regime's financial difficulties, combined with a strategy to punish southern provinces like Muthanna, led to a massive erosion of the middle class's standard of living and increased corruption within the civil service. But the regime's brutality kept the misuse of government resources in check. Since 2003, that threat has ceased, and the CPI has not proven a credible deterrent to massive corruption of government billets, vehicles, weapons, ammunition, or fuel throughout Muthanna. So long as fuel remains mispriced and accountability toothless, the black market will continue to thrive in Muthanna, complicating our efforts to establish the rule of

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law and a market-based economy. END COMMENT.

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